



# The Role of Small and Medium Enterprises in The Economic Development of Ghana: A Study in The Greater Accra Region

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Boateng, Daniel

2012 Leppävaara

**Laurea University of Applied Sciences**  
Laurea Leppävaara

## **The Role of Small and Medium Enterprises in the Economic Development of Ghana: A Study in the Greater Accra Region**

Boateng Daniel  
Degree Programme in Business  
Management  
Bachelor's Thesis  
September, 2012

Boateng Daniel

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Year	2012	Pages	50
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This study examines the role of small and medium businesses in the economic development of Ghana. The research assesses the mechanisms established by government and its agencies to assist in sustaining and promoting small and medium enterprises (SMEs) in Ghana. The study further focuses on the source of finance for SMEs, problems encountered and the role of other stakeholders.

The purpose of this study is to determine the effect SMEs have on the Ghanaian economy in terms of economic growth and the need for promoting and sustaining such businesses. The research was conducted in the Greater Accra region. Information was gathered by interviewing entrepreneurs whose businesses are classified as SMEs together with other stakeholders. These interviews represent the primary sources of data collected. The secondary sources of data were obtained from articles, journals, and other printed and electronic publications. Tertiary data were collected from the Ghana Statistical service, Wikipedia and dictionaries. The data collected were analyzed in qualitative and quantitative terms using predictive analysis software statistics tool.

The empirical section of the study examined and reviewed theories on the concept and characteristics of SMEs with common constraints associated with all SMEs

The result obtained from the study indicated that SMEs in Ghana are a major contributor to the total GDP and employ a large number of the active populace but they are faced with numerous challenges and the government is doing little to address these problems. A detailed conclusion is presented in the study with recommendations on how to sustain, promote, finance, and attract aspiring entrepreneurs.

Key words     Economy, Entrepreneur, Growth, Marketing, Promoting, Sector, SME

## Contents

1	Introduction.....	4
1.1	Thesis Statement.....	<b>Error! Bookmark not defined.</b>
1.2	Scope of the Study .....	6
1.3	Significance of the Study .....	6
1.4	Limitations of the Study .....	6
1.4.1	Inadequate information .....	6
1.4.2	Finance .....	7
1.4.3	Time .....	7
1.5	Organization of the Study .....	7
1.6	Definition of Terms and Definitions .....	8
1.7	PEST Analysis .....	10
1.7.1	Political Factors.....	10
1.7.2	Economic Factors .....	11
1.7.3	Socio-cultural Factors.....	12
1.7.4	Technological Factors.....	12
2	Literature Review.....	13
2.1	Review Framework.....	13
2.2	The Concept of SME .....	14
2.3	Characteristics of SME.....	17
2.3.1	Labour .....	17
2.3.2	Ownership.....	17
2.3.3	Sector of Activity .....	17
2.3.4	Simplicity .....	18
2.4	Barriers or constraints to SME Development .....	19
2.4.1	Finance .....	19
2.4.2	Labour Market.....	19
2.4.3	Equipment, Information and Technology.....	19
2.4.4	Markets .....	20
2.4.5	Regulatory Constraints .....	20
2.4.6	Managerial Constraint.....	21
2.4.7	Institutional Constraint.....	21
2.5	Role of NGOs and Government in Promoting SMEs Development in Ghana ....	21
2.6	Summary of South Korea's SMEs Development.....	25
3	Research Approach, Methodology, Reliability and Validity.....	27
3.1	Methodology .....	27
3.2	Data collection .....	28
3.3	Reliability.....	29
3.4	Validity.....	29

4	Data Analysis and Findings .....	29
4.1	Gender .....	30
4.2	Education .....	30
4.3	Business Category .....	31
4.4	Industrial Sector .....	31
4.5	Capital .....	33
4.6	Problems .....	35
4.7	Qualitative Analysis of Interview Results .....	37
4.7.1	Interviewee One .....	37
4.7.2	Interviewee Two .....	38
4.7.3	Interviewee Three .....	38
4.8	The Ghanaian Situation: Contributions of SMEs to Economic Development ...	39
5	Conclusion .....	40
6	Recommendations and Further Study .....	41
	Appendix 1: Questionnaire .....	48
	Appendix 2: Age of Respondents .....	50

## 1 Introduction

Small and medium sized enterprises (SMEs) are essential for the economic development of many countries including Ghana and the African continent as a whole. Before the Europeans arrived in Ghana, people were already engaged in basic forms of trading through the barter where they exchanged goods or services for another. The indigenes were also engaged in subsistence production of pots using clay, gold mining, salt mining, fishing and peasant farming which they sell the excess of their produce to their neighbors after meeting the demands of their families. The Portuguese were the first Europeans to arrive in Ghana and in 1842 they set up a trading settlement on the coast of Ghana to trade in gold. Although the trade in gold was their first priority, slave trading gradually gained ground and became the most lucrative business at the time.

The economy of Ghana today can be grouped into three categories of economic activity which are agriculture, service and industry sectors. The Ghanaian economy which used to be predominantly agricultural is now becoming an industrial and service based economy according to recent figures released by the Ghana Statistical service in the first quarter of the year 2011. The industrial sector recorded the highest growth of 21.4% of the gross domestic product (GDP); this increase was achieved mainly through the production of oil which started in late 2010 and increase in mining and quarry businesses. The service sector rose by 5.3% while the agricultural sector declined by 35.7%. All in all, the real gross domestic product estimates showed a rate of decline of 5.1 percent in the first quarter of 2011 as compared to the previous quarter of 2010. SMEs are found in all three categories of economic activities within the Ghanaian economy. (News Letter, QGDP, Ghana Statistical Service, June 2011)

The definition of SMEs differs from region to region. According to the European Economic Commission journal on SMEs published in 20th May 2003, defines SME as enterprises which employ fewer than 250 employees; have an annual turnover of not more than €50million and balance sheet assets of less than €43m; and have at least 25% of their capital owned by a larger firm or public body. The use of this SMEs definition by member states of the European Economic Commission is voluntary. Conversely, the Ghana Statistical Service (GSS) considers firms with less than 10 employees as Small Scale Enterprises and others with more than 10 employees as Medium and Large-Sized Enterprises (Kayanula and Quartey 2000, 8). These enterprises are a very heterogeneous group of businesses usually operating in the primary, secondary and tertiary sectors. They include a wide variety of firms such as agricultural inputs manufacturers, local handicraft and artefact makers, textiles and garments makers, and chemicals and pharmaceuticals producers and other service delivery companies. On the whole, SMEs represent over 90% of a country's Gross Domestic Product (GDP) and 80% of employment in most countries, worldwide (Frederick 2005, 1). According to research conducted by Abor and Quartey in 2010 on SME Development in Ghana and South Africa, SMEs in Ghana provide about 85% of manufacturing employment and a total contribution of 70% to Ghana's GDP. Globally, the SME sector is one of the sectors that governments pay much

attention to. In Ghana, prudent macroeconomic policies and substantial structural reforms have been enacted by the government to promote Small and Medium Scale Enterprises (SMEs). There are government-sponsored business support services such as the Ghana Regional Appropriate Technology and Industrial Service (GRATIS), an organization that provides skill training and basic working capital requirements for start-ups, and National Board for Small Scale Industries (NBSSI), which operates in the 10 regional capitals under the Ministry of Trade and Industries (Mensah S, A Review of SME Financing Schemes in Ghana 2004, 2).

Within the context of change and globalization, SMEs have been recognized as the backbone behind economic growth and development through fostering of new ideas, employment creation, investments and exports. As already mentioned, the key objective of this research assesses the benefits that Accra, the capital city of Ghana has derived from SMEs development and promotion, bringing into the spotlight current entrepreneurial issues pervading within the economy of Ghana.

Ghana is a country located in West Africa and share borders with Ivory Coast on the west, Togo to the east, Burkina Faso on the north and the Gulf of Guinea to the south. The country has a total area of 238,533 square kilometers which is about the size of the United Kingdom or slightly smaller than the state of Oregon in America. The terrains consist mostly of low plains in the south-central area while half of the country lies less than 152meters (499ft) above sea level. Tropical rain forest hills and many streams and rivers extend northwards from the shore near the Ivory Coast frontier. The country is demarcated in to 10 geographical regions namely Ashanti, Greater Accra, Brong Ahafo, Central, Eastern, Northern, Upper East, Upper West, Volta and Western regions respectively.

The Greater Accra region located on the south coastline covers an area of 3,245 square kilometers. It has a population of 2,905,726 with a growth rate of 4.4% annually. The region has remained the most densely populated region in the country since 1960. The population density increased from 167 persons in 1960 to 441 persons in 1984 to 895.5 persons per square kilometer in the year 2000. (Ghana in Figures, Ghana Statistical service 2008, 2)

## 1.1 Thesis Statement

The high rate of unemployment in Ghana has previously been attributed solely to the inability of the government to create jobs and support for small-medium enterprises and would be entrepreneurs in terms of the needed infrastructure, guided policy, training, researching and financial assistance. In relation to this argument, the main research question shall be to find the mechanisms established by government and its agencies to assist in sustaining and promoting small and medium enterprises and the impact it has on the Ghanaian economy. The supporting research questions to the main research statement are as follows:

To access the economic importance of small and medium enterprises in Ghana.

What are the problems encountered by would be entrepreneurs and existing small and medium companies?

## 1.2 Scope of the Study

This research focuses on would be entrepreneurs and existing small and medium companies with emphasis on how their business were established, the form of management and control and the effect the business has within the locality they operate. Within this focal point, it investigates the concurrent benefits derived, financing, problems encountered and future plans. The case of the study is within the Greater Accra region of Ghana with entrepreneurs and businesses operating in Accra.

## 1.3 Significance of the Study

Since it has been established that small and medium enterprises give about 85% employment and account for the 70% of Ghana`s GDP, this clearly demonstrate that SME`s is the backbone and engine of growth for the Ghanaian economy. This research will therefore server as measure to this fact and a guideline to upcoming entrepreneurs, existing businesses, stakeholders, the government and its agencies especially the Accra metropolitan assembly(AMA) and National Board for Small Scale Industries (NBSSI) in identifying the contributions of SME`s at the economic development in the region and Ghana as a whole.

The study will serve as benchmark to help the AMA identify and remove all the impediments which hinder the development of SME`s in the region and promote potential entrepreneurs to create avenue for revenue generation and development. To the general public, it will serve as a precept for future research thesis witting and researching.

## 1.4 Limitations of the Study

### 1.4.1 Inadequate information

The researcher finds it difficult getting the necessary information on the study topic particularly about Ghana. There was less literature written about SMEs in Ghana and in generally in Africa. More so, some entrepreneurs were reluctant to give all information needed regarding their business. This makes it impossible for the researcher to obtain enough information which is vital for the study.



#### 1.4.2 Finance

The researcher was faced with the problem of finance. The study could have been extended across the country to seek the opinion of other entrepreneurs in other parts of Ghana. The financial constrain made it impossible but rather used the available resources to focused the study within the Greater Accra region only. This also made the information search limited.

#### 1.4.3 Time

The time frame under which the research survey was conducted was short since the researcher was on holiday in Ghana and as such used part of his holiday time to gather the data. The study was affected by researcher`s other working schedule which hindered the searching of more literature and the coverage of other regions for the study.

### 1.5 Organization of the Study

The organization of the research is grouped into 6 major chapters with sub contents under each chapter that are interlinked to make the research comprehensive. The foundation on which the study is established is on the thesis statement.

This gives the idea about the research problem and what the whole study is which are interlinked in the subsequence chapters to follow in the study. Thereafter, a brief over view of Ghana and PEST analysis with regards to the study topic is given of which relevant existing materials will be reviewed to provide a general understanding and support of the topic. The next part after the literature review is the research methodology and approach adopted which consist of qualitative and quantitative methods.

The qualitative method of data gathering will be interview while questionnaire is used for the quantitative. The study will be completed by data analysis and findings involving conclusion and recommendation

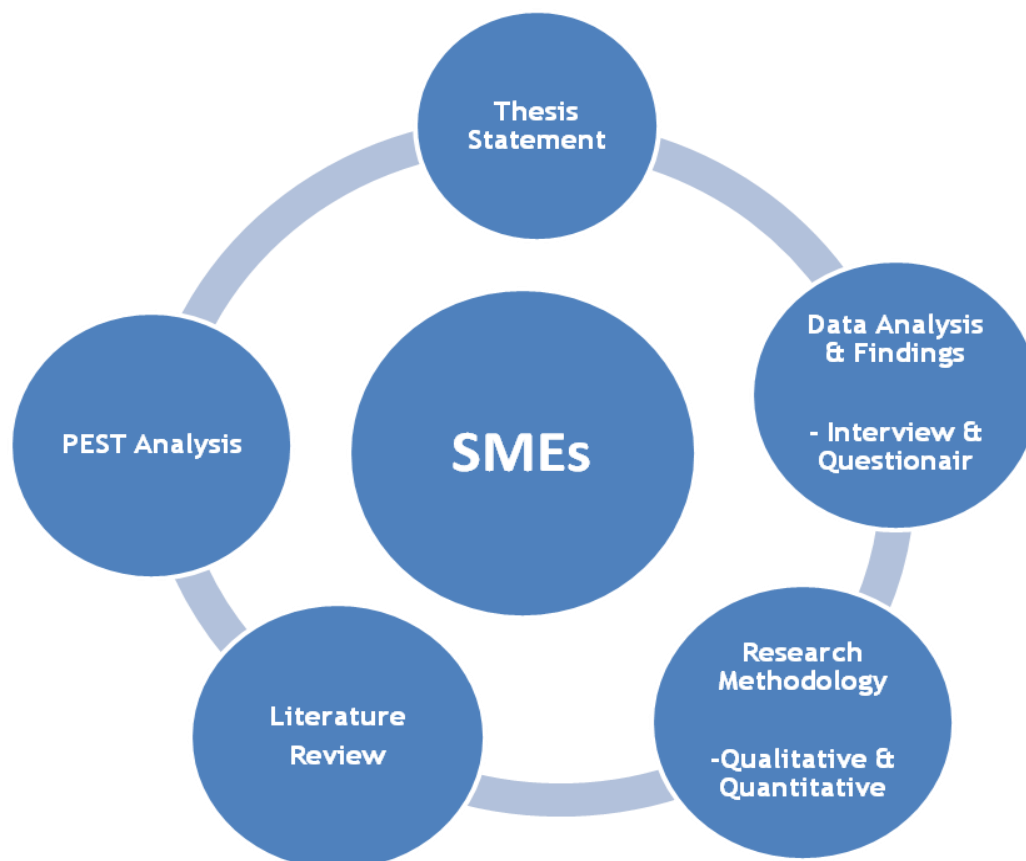


Figure 1: Structure of the study

#### 1.6 Definition of terms and acronyms

**Business:** An economic scheme in which goods and services are traded for one another or for money on the basis of their perceived worth.

**Capital:** Is the financial strength of an individual, company or country worth in the form of asset or money and is assumed to be available for development.

**Development:** The systematic use of resources with technical and scientific knowledge to meet specific requirement or objective to improve and transform a situation.

**Domestic Market:** A system of trading where business entities target to market their products and service to local consumers within the jurisdiction of the country they operate.

**Economy:** A total network of activities related to production of goods and service which is distributed to consumers in a particular geographical area.

**Enterprise:** It is business entity established for providing goods or services with anticipated outcome of earning a profit.

**Industry:** The general business activity or commercial enterprise that can be isolated from others.

**Interview:** A conversation between two or more people where information are exchanged.

**International Market:** A system where domestic business operation target markets outside their jurisdiction or enter into other countries to do business

**Labor:** The total work performed or measured of all human mental and physical effort used in the production or creation of wealth (goods and services).

**Marketing:** The process of planning and executing the conception, promotion, pricing, and distribution ideas, goods and services to create exchanges that satisfy individual and organizational Objectives (Kotler et al, 2005).

**Ownership:** The legal right to possess, occupy, sell, rent, use, give away or even destroy an item of property.

**Pest Analysis** Is strategic planning tool used to evaluate key factors such as political, economical, social and technological and the effect it might have on a project

**Promoting:** Is a term used to create the publicity of a product or service usually through advertising to attractive potential customers.

**Qualitative Research:** Provides a holistic view of a research problem by integrating a larger number of variables but asking only a few respondents.  
(Hollensen S, 2010, 629).

**Quantitative Research:** A method of gathering data about certain behaviors and attitudes that can be can examine in an unbiased manner. Mediums used to collect such data are online survey, questionnaires, mail etc.

#### Definitions:

ACP	African Caribbean and Pacific Group
AGOA	African Growth & Opportunity Act
BAC	Business Advisory Board
BAF	Business Assistance Fund
ECOWAS	Economic Committee of West African States
EPA	Economic Partnership Agreement

GDP	Gross Domestic Product
HND	Higher National Diploma
MSMEs	Micro Small Medium Enterprises
NBSSI	National Board for Small Scale Industries
NGO	Non Governmental Organization
OECD	Organization of Economic co-operation & Development
SMEs	Small Medium Enterprises
WHO	World Health Organization

## 1.7 PEST Analysis

### 1.7.1 Political Factors

Ghana with a total population of 23 million people attained her independence on 6<sup>th</sup> March 1957 from Britain. The country's constitutionally elected President Dr. Kwame Nkrumah led the country to gain this political freedom from the British and thus became the first president of Ghana. In 1966, Dr. Kwame Nkrumah's government was over thrown by coupe d'état organized by some dissident army officers of the Ghana armed forces. Between 1966 and 1981, Ghana experienced five coup d'état which affected the political stability and the growth of the economy. Since the late 1980's, Ghana has not had any internal upheavals or regional conflicts.

The country in 1992 had its first presidential elections under the fourth republic by public ballot voting and has since maintained this form of democratic practice which has given it a reputation of a stable democratic economy. However, the political instability in neighboring country Ivory Coast and the military and student's unrest which started in February 2011 in Burkina Faso affect Ghana economically since political stability within a country or in a particular region is a great asset for any economic development as it is an essential consideration for any investor either domestic or abroad. According to the corruption perceptions index for 2011 by Transparency International, Ghana is ranked at the 69<sup>th</sup> position in the world and 6<sup>th</sup> position in Africa as the least corrupt country.

The government of Ghana has over the years established various institutions such as the Value Added Tax Authority, National Board for Small-Scale Industries (NBSSI), The Business Advisory Centre (BAC), The Business Assistance Fund (BAF). to improve its tax revenue collection and assist new entrepreneurs and existing businesses. However, the government of the day can have an influence on the laws that regulate the tax system, business policies and business formation in the country.

The government has maintained a fair trade policy, equal opportunities and a healthy business competition such as fair market share, pricing and acceptable form of business practices for all

businesses within the country. However there are situations where the government has maintained its position on the market ethics based on the Ghanaian societal culture, norms, principles and values. Thus, there are laws which govern the standards of goods and services offered and businesses established to maintain the dignity of the country and their corporate culture and expectations like conducting business in a way that protects the natural environment while making economic progress. For example, the laws do not permit any person or business to operate a brothel as a form of business in Ghana as it is been done in Holland. Such a business is both unethical and illegal on the part of the government and the Ghanaian cultural system. The government has also tasked all consumers with an obligation to act responsibly and ethically.

In 2008, the government introduced a policy named the 'Golden Age of Business which showed a great enthusiasm for economic development and a high regard for and commitment to the private sector. The government of Ghana in its annual budget report in 2010 also came with a policy called "Better Ghana" which will identify a comprehensive set of policies to attain growth and economic stability. The policy was focused on development through job creation and the sustenance of the macroeconomic stability. Ghana is member of the Economic Committee of West African States (ECOWAS) which seeks to promote economic integration particularly in trade, commerce, transportation etc. Ghana is also a member of other trade organizations such as the World Trade Organization (WTO), African, Caribbean and Pacific group, (ACP) and also have trade agreement such as Interim Economic Partnership Agreement (EPA) initiated by the European Union in December 2007, African Growth and Opportunity Act (AGOA) which was commenced by the United States which was signed into law on May 18, 2000 under the United States trade and development act of 2000.

### 1.7.2 Economic Factors

Entrepreneurs, investors, business owners, marketers often consider the state of economic trading in terms stock markets, bond markets, commodity markets, money markets, foreign exchange markets, insurance markets and the various business risks and factors in the short and long-terms in any economic area they wish to invest in.

The inflation rate as at May 2011 stood at 8.9 percent. The rate of inflation has been fallen since June 2009 when it stood at the rate of 20.74 percent. The Bank of Ghana monetary report issued in July 2011 stated that, inflation has remained stable since May 2011 but forecasted the rate of inflation is likely to be within the range of 8 to 9 percent within the next 12months. The monetary policy rate by the Bank of Ghana is at 12.50 percent as at July 2011 but this rate may differ from bank to bank. Example, the Ghana commercial bank has lending rate of 20.50%, UT Bank 23.95%, Stanbic Bank 21.90% and Barclays Bank of Ghana with 18% representing the lowest rate in the banking industry. The total value of final goods and services produced in 2010 which constituted the gross domestic product (GDP) based on the current prices in 2010 was GHC 44,465 billion

which is equivalent to \$ 31,084 billion. The general government generating revenue consist of taxes, grants receivables, social contributions and other revenues of which 17.405% of the total GDP in 2010 account for the governments general revenue. Ghana's main exporting commodities include gold, cocoa, timber, tuna, bauxite aluminum, manganese ore, diamonds and recently oil to major exporting countries like USA, Ukraine, Turkey, India, Japan etc. and import products such as petroleum, plant and machinery, vehicles, spare parts, consumer goods and intermediate goods such as food, paper products, spare parts etc. from major importing countries like China, Nigeria, USA, Ivory Coast, India, South Africa etc.

The long term economic growth prospects for Ghana looks favorable considering the various economic policies put in place by the government, the discovery and production of oil, the rebound of the mining and quarry industry and the booming of the service industry.

### 1.7.3 Socio-cultural Factors

Ghana is a multicultural society and a liberal market for doing business. Due to the country's very religious background in Christianity, Islam and traditional beliefs which comes with a high moral values and standards, the government takes stance to advice start up business operators and investors on how to operate within the country. The economy is open and very welcoming to foreign product and services such that the country have a lot of companies with foreign background however, they must conform to the culture, ethics ,norms and rules within the locality which they operate. The literacy rate stood at 66 percent of the total population in 2008 with life expectancy at birth up to 57 years. English is the official language used in education and business but most people feel more comfortable to use their local language when transacting business.

53.4 percent of the population is made up of populace between the age of 15 to 64 years, from the age of zero (0) to 14 which constitute 44.3percent and 5.3 percent is made up 65years old and above. The average household annual income is about GH¢1,217.00 an equivalent of 608.5 Euros whilst the average per capital income is about GH¢400 an equivalent of 200 Euros. This indicate that majority of the population live fewer than 2 Euros per day. However there are regional difference as those in the Upper West and Upper East regions in the northern part of Ghana had less than GH¢130.00 whilst the Greater Accra region in the south had GH¢544.00 as per capital income. Urban localities earned more per capital income than those in rural localities.

The country is concern about the environment and has various laws protecting it. However, various communities also have their customary laws used in protecting the environment which is obeyed by all the people and businesses operating.

### 1.7.4 Technological Factors.

The world as of today cannot do away with the super high way of information communication technology (ICT) thus connecting people through various means of communication and information sharing with the help of technology and internet. The speed with which Information communication technology is developing and its socio economic impact activities cannot be overemphasized. In view of this, Ghana is not excluded from the technological revolution as it is now accepted that the use of ICT has been integrated into almost every aspect of governance, commerce, education and civic activities. The government of Ghana and together with other agencies has been working over the years to develop the ICT infrastructure to link the technical and digital divide between developed countries and Ghana. Ghana was the first West African country to be connected to the internet in 1994. Technology have over the years improve the services offered in the banking sector greatly as all the major banks are network throughout the country and with some introducing internet banking.

Small businesses are able to do business via the internet and phone by sending and receiving invoices, information sharing, responding to customer feedbacks and searching for information. The introduction on ICT have brought about many innovative products and services which have help to reduce cost and save the environment by people and business understanding to store data and information and to transact business electronically. However, Ghana is still at a large extent isolated digitally from the global village because it still lacks most of the infrastructure, technology and the human resource to move the ICT sector at par with those in the developed world. The Ghana government ministry of communication and technology had indicated that, Ghana need about 800 million dollars to improve the ICT sector as whole. (Ghanaweb business News, May 27, 2003)

## 2 Literature Review

### 2.1 Review Framework

The government of Ghana by an act of parliament in 1985 established the National Board for Small Scale Industries (NBSSI) to manage the activities of all small and medium businesses in the country. Primarily, the NBSSI was established to promote and develop micro, small and medium businesses operating in Ghana.

The NBSSI was tasked to set up operating offices throughout Ghana and currently has ten offices, one in each regional capital of Ghana. The German Development Service, a non-governmental organization in collaboration with the NBSSI started in 1990 by funding small scale enterprises. The activities of the NBSSI are in two broad categories, namely financial and non-financial services. The financial activities of the NBSSI intend to improve and develop NBSSI clients banking culture by extending credit facilities through its loans schemes such as working capital, fixed asset acqui-

sition, the performance of accounting practices and creating an enabling environment for the development of SME in Ghana.

The business advisory board (BAC) which is an extension of the NBSSI is assign with the non-financial activities of the organization and deals with the training, guidance and providing the relevant information to sustain entrepreneurs, micro, small and medium business and also to facilitate the growth of enterprise sector associations. (Daily Graphic News Paper, February 1998)

## 2.2 The Concept of SME

The past years have seen a lot of seminars and discussions among the various stake holders of SMEs in Ghana, to deliberate and research into the role of micro, small and medium enterprises within the Ghanaian economy which have resulted in a considerable body of academic literature and thinking.

Defining SMEs and it sectors, particularly small businesses is fairly difficult as there are differences in what is appropriate to describe as “small” in different industries. There is no universal definition for SMEs as the term covers extensive definitions and variety. The most common definitional basis most countries use is employment, while some countries distinguish between autonomous SME`s with those connected to a larger enterprise or group or identify SME`s in term of management structure.

The level of Sales turnover, employment, and capitalization differ in firms, hence definitions which adopt the number of employee size, profitability, and net worth, when applied to one sector could lead to all firms been classified as small while the same criteria/size when applied to a different sector could lead to a different result.

The Bolton Committee in 1971 from the United Kingdom tried to prevail over SMEs definition by formulating an economic and statistical approach. Under the economic definition, a firm is regarded as small if it meets the following three criteria:

An enterprise having relatively small share of the relevant market.

It is managed by the owners or part owners in a personalized manner than by means of formalized management structure.

Small and medium businesses are independent and in a sense not forming part of a bigger company.

The statistical approach adopted three areas of analysis as follows:



The size and sector of the firm is quantified in terms of its contribution to GDP, employment, innovations and exports.

The second aim is to relate the extent to which the economic contribution from the small firm sector has changed a period.

The statistical definition is applied in a cross country comparison of the small firms' economic contribution. This is to compare the economic contributions achieved by SMEs in one country to other countries.

The Bolton Committee defines SMEs in various sectors with different criteria as illustrated in Table 1 below.

The Bolton Committee Definitions of SMEs

Sector	Definition
Manufacturing	With 200 employees or less
Construction	With 25 employees or less
Mining & Quarrying	With 25 employees or less
Road Transport	Five vehicles or less
Retailing	Turnover of £ 50,000.00 or less
Miscellaneous/ services	Turnover of £ 50,000.00 or less
Motor Trades	Turnover of £ 100,000.00 or less
Whole Sale Traders	Turnover of £ 200,000.00 or less
Catering	All excluding multiples and brewery managed houses

Table 1: Culled from the Bolton Committee 1971, UK

The Organization for Economic Co-operation and Development (OECD) define SMEs as non-subsidiary, independent firms which employ less than a given number of employees which varies from one country to another (OECD Observer, 2000). The European Union (EU) defines micro-small and medium size enterprises as those enterprises qualified base on various characters and criteria laid down to be fulfill in a recommendation given by EU commission working staff report as illustrated in table 1.

Enterprise Category	Ceilings		
	Number of Persons	Turn Over	Balance Sheet
Micro	< 10	≤ € 2000,000.00	≤ € 2,000,000.00
Small	< 50	≤ € 10,000,000.00	≤ € 10,000,000.00
Medium	< 250	≤ € 50,000,000.00	≤ € 43,000,000.00

Table 2: European Union Definition SMEs Culled from EU Commission Staff Report, 6<sup>th</sup> May 2003

In summary, the EU defines SMEs as “enterprises qualify as micro, small and medium sized enterprises if they fulfill a maximum staff ceiling, a turn over ceiling or a balance sheet ceiling”. The EU, thus specify the various ceilings under which an enterprise qualifies as a micro, small or medium business as illustrated in table 2 above. (The New SME definition- User guide and model declaration, EU Commission 2005).

The United Nations Industrial Development Organization (UNIDO) definition of SMEs for developing countries like Ghana defines SMEs on the number of employees a firm has with medium firms having employees between 20 to 99 while small businesses consist of 5 to 19 workers and micro enterprises having less than 5 workers. In the context of Ghana under the definition of SME, the Ghana statistical service (GSS) as contained in its Industrial Statistics, regards small scale enterprises as firms with less than ten employees and medium or large size enterprises as firms with more than ten employees. Alternatively, NBSSI uses multiple criteria such as a company’s fixed asset, employee size, and amount of equity invested as a basis for determining the type of SME an enterprise is.

Therefore, the NBSSI considered small enterprises as business entity employing not more than nine persons with a plant machinery value not exceeding GHC 15,413.00 an equivalent of 7002.00 euro (Using the current exchange rate of October 2011). In spite of the differences in the comparative definitions of SMEs, there is no consensus on the actual definition of SME as this may differ from industry to industry and country to country in as much as definitions also change over time.

The differences between industries could be seen in terms of capital requirement of each sector. Among countries, this could occur as a result of differences in industrial organization during the stages of economic development by different countries. What might therefore be defined as SME

in a developed country can be considered as a large company in a developing country using criteria as fixed capital and number of employees.

## 2.3 Characteristics of SME

Fisher and Reuben (2000) outline a number of characteristics of SMEs in developing countries including Ghana under various headings namely: labour characteristics, ownership, sectors of activity and simplicity.

### 2.3.1 Labour

Small and Medium enterprises usually start up as single entrepreneurship (one person business) or a small group of entrepreneurs pulling their resources and expertise together to establish a business. More than half of SME workforce is made up of this group in most developing countries. The rest of the labour force is divided between hired workers and apprentices or trainees. Small and medium enterprises are more labour demanding than bigger companies and therefore, the cost of capital associated with job creation is lower. (Anheier and Seibel 1987, Liedholm and Mead 1987, Schmitz 1995).

### 2.3.2 Ownership

Greater part of all SMEs in Ghana are female owned businesses which are usually home based compared to those businesses owned by males. By the employment status of household heads in Ghana, 78.4% of women are self-employed while men accounted for 64.7%. Apprenticeship of females is 1.5% while men are 1.4%. (Ghana Statistical Service: 2000 Population and Housing Census) Majority of these female owned businesses are micro-enterprises which they operate from their home, in small shops by the roadside or in open market places.

### 2.3.3 Sector of Activity

Most of the SMEs conduct their businesses in trading, retailing or manufacturing. While it is a common perception that the majority of SMEs will fall into the first category, the proportion of SMEs activity that takes place in trading sector varies considerably between urban regions and rural areas. The SMEs activities are categorized into rural and urban enterprises in Ghana.

The urban enterprises are divided into “organized” enterprises which often have a registered office with paid employees whereas the “unorganized” group is primarily made up of artisans who work in temporary wooden structures, at home or in an open space and have few employers. In some cases, they have no salaried workers and rely mostly on apprentices or family members (Kayanula and Quarter 2000, 15).

Rural enterprises are mainly made up of artisans' women or family groups engaged in food production from local crops. The most common activity within this sector are soap and detergent making, blacksmiths, textile and leather making, fabrics, tailoring, ceramics, bricks and cement, bakeries, mechanics, chemical based products, food processing, electronic assembly, agro processing, wood furniture and timber. (Kayanula and Quarter 2000, Osei et al., 1993).

#### 2.3.4 Simplicity

The direct involvement of owner(s) in most SMEs allows the business structure to be simple and flexible and make necessary changes quickly to their services or product when the need arises without such obligation as addressing stakeholders or board members for decisions approval. This simplicity, however is achieved since most SME companies are quite small with less employees and few products or services offered. A typical SME will make the necessary changes quickly to their product or services to suit their clients' needs since they relies more heavily on them than a large company who have thousands or millions of customers. Since most SMEs are usually small in business size, they are able to take the advantage when it comes to specialization and fill the market niche with their products and services.

In view of the above major characteristics associated with SMEs, they also have the following features:

Most SMEs are the brainchild of most innovations since their operations start with an idea conceived by an individual who turns these ideas into innovative service or product and as such a business.

Majority of SMEs in Ghana operate on trust rather than laid down procedures, systems and contracts. The business owner may have little or no formal business experience and few generic business skills, thus affecting the day to day management of the business.

SMEs are often classified as businesses with low productivity and focus on small range of products or services offered but effective in job creation.

Usually all personal assets including the owner's home or vehicle are normally committed as security for the business.

Majority of SMEs acquire experience and skills at little cost since they are responsible for apprenticeship and training.

The values of the owner of most SMEs are strongly shared by the business staff with usually a tight family like culture

SMEs target market for their product or services are generally for the domestic market the business operates in.

Most SMEs have limited financial and other resources to operate and find it more difficult to access loans.

The business generally ceases to exist or be operational usually when the owner dies.

## 2.4 Barriers or constraints to SME Development

Despite the various economic reforms and programs established by the government to facilitate, promote and assist SMEs to accelerate growth and job creation in developing countries like Ghana, SMEs still face a variety of limitations which affect their ability to achieve their full potential. SMEs development is held back by a number of constraints such as:

### 2.4.1 Finance

Access to finance continued to be a leading problem faced by SMEs in Ghana. The government of Ghana business policy paper in May 2001 stated that, about 80% of SMEs operators started their businesses with their own capital with sometimes minimal help from relatives and friends. The banks requirement of collateral such as land, house, cars from SMEs operators to guarantee loans given are beyond the reach of most entrepreneurs. This collateral demands stems from the perception of high risk associated with SMEs and the view that most of them are one man owned business which have no future of continue operating once the owner dies. As a result, SMEs often cannot obtain long term loans in the form of debt and equity from financial institutions.

### 2.4.2 Labour Market

This is considered as a less important problem to SMEs in view of the widespread underemployment or unemployment. Simple technology are normally used in SMEs which does not require highly skilled labor, however where the jobs demand skilled labor and there are no supplies of them, this could create a problem which can limit the specialization opportunities. In the end, it will raise the cost and reduce the flexibility in managing operations.

### 2.4.3 Equipment, Information and Technology

The difficulties in gaining access to appropriate information on available techniques and technologies are eminent among SMEs. The lack of technical know-how and the use of obsolete equipment and machinery often hindered the smooth running or development of SMEs. This is especially true for the new entrepreneur who is starting a business in terms of the available information and the technical know-how but for the already established entrepreneur, new technologies tend to be something non existing or unavailable. These problems limit SMEs competitiveness, innovations and expansion of business.

#### 2.4.4 Markets

SMEs often find it very competitive to compete within the local market which they operate since they have limited access to the needed infrastructure like energy, transportation, communication facilities, modern equipment and machinery and the expertise to compete with the big firms. These problems results in inefficient distribution channels which impose a limitations to the market access for SMEs.

The influx of imported product substitutes on the market makes it even more difficult for the local manufacturing SMEs to gain a niche of the market available.

Enterprise performance on the international product market is no longer a function of price alone as competitive performance is now a function of reliability which involves getting the right products in best quality of the required quantity at a competitive price to the right place at the demanded time. In practice, large firms find it difficult meeting these market conditions, let alone SMEs. The inability of most SMEs to design, package, distribute and market their products which must conform to the required international standards and the needed certification, limits SMEs to have the total access to the international markets.

#### 2.4.5 Regulatory Constraints

Although wide range of structural reforms has been made which have led to some improvements, there are still more rigid regulations which create severe challenges to SMEs development. The high cost of licensing and registration requirements for startup firms coupled with delays in court proceedings and legal claim settlements can impose undue and unnecessary burdens on SMEs which in turn affects its operations. The Word Bank Doing Business Report (2006) stated that, it takes 127 days to deal with licensing issues and there are 16 procedures involved in licensing a business in Ghana. Meanwhile, the absence of antitrust legislation favors larger companies while the lack of protection for property rights limits SMEs access to foreign technologies (Kayanula & Quartey 2000, 15).

#### 2.4.6 Managerial Constraint

The lack or scarcity of managerial talents, skills and know how places significant limitations on SMEs development. Even though SMEs tend to attract motivated managers, they can hardly compete with big companies. The lack of support services or their relatively higher cost can oppose SMEs effort to improve their management because consulting firms often not equip with appropriate cost effective management solutions for SMEs. However, despite the numerous institutions providing training and advisory services, there is still a skills gap among the SMEs sector as a whole. (Kayanula and Quartey 2000, 15)

#### 2.4.7 Institutional Constraint

The wide range of SMEs interests and lack of organization limits their capacity to defend effectively their collective interest and participation in civil society. Associations providing a voice for the interest of SMEs in the policy making process have had a limited role compared to those larger companies. Moreover, the potential economies of collaborative arrangements in production and sales among SMEs have not been adequately explored, creating a very minimal interdependence among SMEs while on the part of large scale enterprises as purchasers of output, either for sale, as final goods or to be used as intermediate inputs is also very limited.

### 2.5 Role of NGOs and Government in Promoting SMEs Development in Ghana

Ghana immediate post-independence industrial strategy from the 1960s was characterized by the establishment of large scale import substitution industries. The strategy depended heavily on direct government investment and promotion of large scale state owned enterprises. This was in consonance with the popular dependency theory which argued strongly that; third world under developed countries was underpinned by reliance on imports from developed countries.

The local small businesses were also seen as a potential political threat at the time. By the 1980s, the situation got worsen due to the deterioration in the Balance of payment and the exchange rate overvaluation which led to reduce capacity utilization in the import dependent on the large scale sector. Employees were forced into secondary self-employment in an attempt to earn a decent income when in the formal sector wages fell and inflation increased and as the economy declined, large scale manufacturing employment stagnated.

Consequently, the initial effort at developing Ghana`s industrial base at the time had no small and medium scale industries with no or minimal policy frame work for the Private sector development. During that era, most of the country`s industrial set ups were capital intensive and as a result several industrial deficiencies were created during the post-independence period.

Notably among them were that lack of machines and equipment to manufacture spare parts for the industrial sector. Opportunities were limited for on the job training for most artisans and middle level technicians due to the size of the industry and the requirement of high level experience. There were also lack of industrial entrepreneurial culture and development coupled with a sector which could not provide essential services within a well reserved industrial policy for sustainable growth.

It was in view of the above that the government started promoting small scale enterprises. They were sighted as the means through which a changeover from the state led economy to a more private oriented market. Thus the government of Ghana in an attempt to promote the SMEs undertook a number of economic reform measures and the establishment of supporting institutions. The establishment of the NBSSI as already indicated in this chapter was an important step on the part of the government towards the growth and promotion of SMEs with the main aim of propelling the industrial sector by providing financial and non-financial assistance. The main objectives and aims of the NBSSI were:

Contributing to the creation of an enabling environment for small scale enterprise development

Contributing to the development of an enterprise culture and thereby improving the indigenous entrepreneurial base in Ghana.

Facilitating access to credit for small scale entrepreneurs; and

Providing nonfinancial support to new business creation and small enterprise development in Ghana through comprehensive institutional linkage.

To achieve these objectives, the NBSSI focuses on:

Making policy recommendations and developing strategies towards the promotion of small businesses in Ghana.

Advising the sector Minister on all issues relating to the development of small businesses in Ghana.  
Establishing a data bank and disseminating information on the small business sector.

Promoting the information of sectorial business associations and developing existing ones.

Mobilizing funding for the development of small business sector.

Developing the entrepreneurial, technical and managerial capabilities of small business people and;



Implementing programmes and action plans in collaboration with governmental and non-governmental organizations whose activities have impact on the promotion and development of SMEs.

The government and the NBSSI initiated two credit schemes. Programme for Action to Mitigate the Social Cost of Adjustment (PAMSCAD) was the first initiative with a scheme called credit line for micro and small scale industries. The aim of the scheme was to provide funds of US\$ 555,555.55 by the government to entrepreneurs to set up their own businesses, alleviate poverty and also assist the economically and socially disadvantage.

The second programme was an amount of US\$ 183,028.66 revolving fund which the NBSSI lend to its client firms after a loan request had been made to the Ministry of Finance and Economic Planning by the NBSSI.

The objective of the loan scheme is to encourage entrepreneurs to leave the “buying and selling business sector” which is overcrowded and move to manufacturing and value added activities. Both loan schemes were to provide financial assistance to enable SMEs acquire essential equipment and raw materials and to serve as a continues loan revolving fund.

The NBSSI to improve on its performance and facilitates their work established another unit called Business Advisory Center’s (BAC) in all ten regional capitals on Ghana. The BAC assisted and advice SMEs owners to choose the best machinery which cost less but effective for their business operations.

They also carried out feasibility studies for businesses where possible and applicable and also help to arrange for tax exemptions on certain equipment and machinery. It also offered services in management and development training programmes in quality control, record keeping, marketing, business planning, customer relations, motivation, banking procedures, communication, pricing and costing.

In 1971, TechnoServe, an NGO which was founded by the city of Connecticut businessman Ed Bullard was established after volunteering in Ghana. Bullard was inspired by establishing an NGO to help hard working rural people to lift themselves from poverty and encourage private business.

TechnoServe mission was to improve the economic and social well-being of the low rural income earners especially those in the agriculture and agribusiness sector by linking them to better markets for their produce and improve on the quality and quantity. It also gives training and business skills as well as aspires entrepreneurs across sectors to better develop their business ideas, plans

and link them with financiers. By this assertion, TechnoServe was to foster the establishment of small and medium scale community based agricultural enterprises.

There are several foreign government agencies and NGOs who have play different roles in support and development of SMEs in various capacities in Ghana. Notably among such NGOs and their activities are listed in the table 3 below:

NGO/Agency	Activity
International Institute for Communication and Development	Providing ICT through the use of mobile phones, internet, radio and television among micro, small and medium entrepreneurs
Good Morning Africa	Dedicated to high growth, social entrepreneurship and business promotion
IntEnt	Assisting migrant entrepreneurs to build viable business in their countries of origin
Opportunity International	Provide micro finance, loans, savings, insurance and training
SpeedGhana	Facilitates micro financing, provides technical support and provide business development services
EMPRETEC Foundation Ghana	Build high quality support structures ,internationally competitive , encourages SMEs to be innovative and collaboration with the government
Business Development Services Fund Ghana	Advocates for fair pricing, entrepreneurship development and project implementation ,provide financial and market access to MSMEs
CIDA	Assisting MSMEs deepening technological capacity and private sector development support
DANIDA	Business development, private sector development and creating business linkages between Ghana and Denmark
GTZ	Promotion of MSMEs and assisting with credit funding in urban and rural areas
UNIDO	Strengthening capacities and competitiveness of MSMEs
International Finance Cooperation	Assist in SMEs training and development
UNDP	Support SMEs training, capacity building of micro finance institutions for SMEs and its development
USAID	Assist micro and small scale farmers and support SMEs in non-traditional exports

Table 3: NGO's and Activities

## 2.6 Summary of South Korea's SMEs Development

The Republic of South Korea is located in the southern portion of the Korean Peninsula and has neighboring countries like North Korea to the north, Japan at the east and China at the west. It has a population estimated at 48,875,000 with a total land size of 100,210 kilometer square. South Korea as its commonly called is a developed country and Asia's fourth largest economy and the world's 15<sup>th</sup> largest economy.

The country achieved a growth and global integration record to become a high tech industrialized economy from the 1960s. Their economy is mostly exported driving with production centered on automobiles, electronics, petrochemicals, ships and other machineries. Its gross domestic product in 2011 was estimated at \$ 1.163 trillion according to the Wikipedia web site in 9th January 2012.

According to a research report on Ghana SMEs conducted by the Korea Development Institute on behalf of the Ghana government in 2008, Korean SMEs and its structures were compared to that of Ghana of which the following were established.

The Korean government in the early 1960s launched strategic development plans to improve all sectors of its economy. The strategy was based on two concepts, which was, the elimination of poverty and the sustenance of economic growth based on the development of enterprises (SMEs) and industry.

The second notion was in the selection and concentration of resource allocation, which the government adopted strongly to abide by the principle, as a measure in resource allocation. Based on this concept, the plan for the development of SMEs or enterprises was introduced gradually.

As part of the process targeted, industry were set up and fostered based on the selection and concentration concept and since the country was endow in human resources but have less in natural resources, labor intensive industries such as electronics, steel, ship building, automobile and textile were put on the targeted industries list and allocated with the needed resources. The Korean government adopted a model of foreign capital attraction which was secured through loans and relied very less on Foreign Direct Investment (FDI).

The government guaranteed loans on behalf of Korean firms, from foreign institutions both private and public, also made possible for introducing foreign large scale enterprises into the Korean market. This thus provided lots of market to many locally based Korean small and medium enterprises.

The Korean SMEs became the subcontractors and suppliers for these foreign companies and in creating such a relationship, benefited greatly from transfer of technology. However, unlike many developing countries like Ghana, South Korea was very keen on protecting its ownership and con-

trol of its business ventures as this was one of the important consideration they looked at in seeking foreign capital.

The less foreign direct investment approach adopted by the government was to fuel Korea's economic growth, which was supported by its protectionist policies, and this helped to develop their unique products brand and had substantial local control and ownership of their economy. Also, the dependence on loans rather than foreign direct investment helped keep ownership of Korean enterprises.

By 1960, the Korean government still lacked the requisite capital for investment in new business areas and enacted a bill called the Foreign Capital Inducement Promotion Act which established tax holidays, equal treatment of foreign firms with local firms and guarantee of profit remittances and withdrawal of principal in order to attract foreign direct investment.

Because of the massive inducement of foreign capital, Korea succeeded in establishing large corporations in targeted industries and maintained the control on sectors which were considered strategic. They worked out elaborate schemes, which ensure that these sectors were the Korean themselves who were managing, and owning their businesses.

The government supported SMEs to induce growth and expansion by given financial and tax incentives especially to foreign investors whose business activities are within the SMEs sector. Some of the tax exemptions or preferences for foreign investments made in Korea were income and property tax relief.

In addition, some banks were established essentially for the SMEs and a credit guarantee scheme which helped to spread out the risk between the financial institution, the individual investor and the government. All these effort boosted up the level of entrepreneurship and the number of startup businesses in South Korea.

The South Korea SME development plan is depicted in figure 2 below, show a step by step approach in developing the SMEs sector. The end result to be achieved by this plan is to expand all SME activities in every aspect of the economy and be a global competitor

## South Korea's SMEs Development Plan

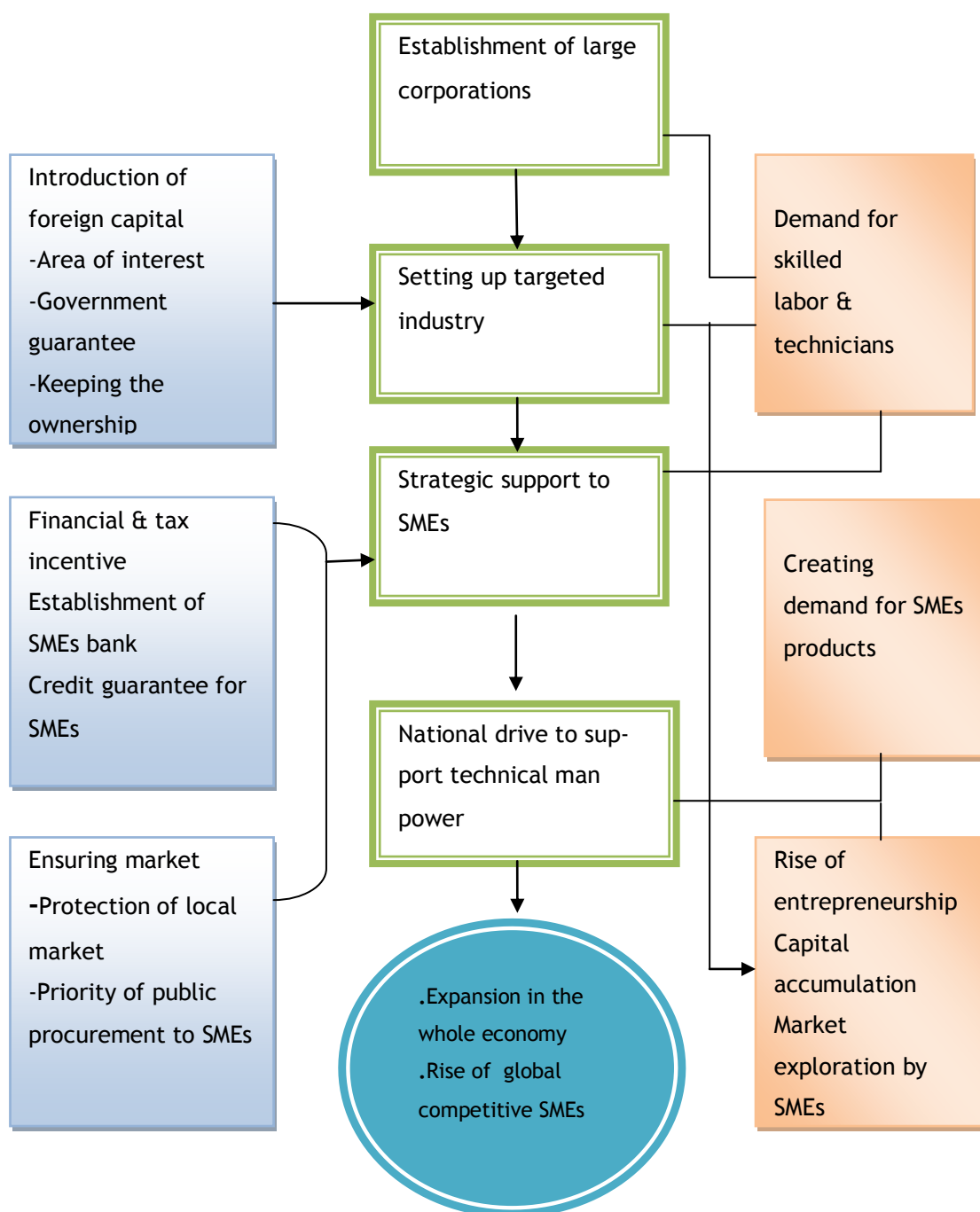


Figure 2: Source, Building the Foundation for the Development of SMEs in Ghana, KDI,

### 3 Research Approach, Methodology, Reliability and Validity

#### 3.1 Methodology

This chapter focuses on the methods used for collecting data from the various respondents. It indicates the population for the study, sample and sampling procedure, procedure for gathering data and methods used for the data analysis.

The researcher used both quantitative and qualitative methods of research approach in the data collection and analysis. A total of fifty three (53) respondents from the Greater Accra region were used as the targeted population sample for the study.

Questionnaires were used to collect data from selective micro, small and medium business operators in different business sectors at different locations within the Greater Accra region. This was to solicit their views about the aforementioned research problem. The data collected is used as the basis of generalization. The questionnaires used forms part of the quantitative approach adopted to gain an understanding into the topic being studied.

Interviews were conducted to gather data from micro business operators and SMEs owners to investigate the challenges that they encountered when starting up their businesses. The existing barriers they face currently and what support they received from the government or other agencies. This approach forms part of the qualitative method used.

The researcher used the narrative form to simplify the findings gathered in analyzing the different views from the various business operators. The interviews were conducted on one on one encounter with various SMEs entrepreneurs. Phone conversations were held through Skype calling and voice over internet program (VOIP) as they were cheaper and proved efficient than normal GSM calling. Important points from the interview were written down during the conversation to avoid information loss.

### 3.2 Data collection

There are three main sources where data can be collected, in marketing, statistical and academic researches. Data can be collect from primary, secondary and tertiary sources. The primary source of data collected provides the first hand information or direct evidence concerning the topic been studied.

Secondary sources of data were written accounts of studies which analyze, interpret, criticize and evaluate the primary sources whereas tertiary sources consist of information which provides overviews of data from other sources usually from the primary and secondary sources. Data has been collected from all the aforementioned sources with emphasis on this research .Data from primary sources were collected using questionnaires and interviews. In reviewing what others have written about micro, small and medium enterprises, the researcher referred to secondary source of information which was in the form of journals, newspaper publications, electronic publications, published theses and books.

The tertiary sources provided a general understanding of concepts, terminologies and some facts that pertain in micro, small and medium enterprises. Tertiary sources of data were collected from Encyclopedia Britannica, Wikipedia, dictionaries and Ghana statistics Department.

### 3.3 Reliability

The reliability of this research can be seen from the theoretical framework section which gave a comprehensive reviews and literature from various books, articles and researches conducted on SMEs in Ghana and various part of the world. The author has in depth interview with an official from the NBSSI and other stake holders in SMEs in Ghana who gave relevant and accurate information concerning the research topic.

According to Joppe 2000, reliability is the extent to which results are consistent over time and an accurate representation of the total population under a study. Reliability is also the level to which results achieved correspond to the same answer and precisely represent the total population under study (Kirk & Miller 1986, 19).

### 3.4 Validity

Validity is the degree to which a study accurately answers the question it was intended to answer (Gravetter & Forzano 2010, 20). In ensuring the validity of the research, the fundamental questions which relate to the study area were pre-discussed with the researcher's supervisor, entrepreneurs and class mates to ascertain ambiguities and the scope of possible responses for each question. This corroborates that, the results that have been obtained are valid. The conclusion and recommendations made is, therefore, the researchers own opinion.

## 4 Data Analysis and Findings

This chapter follows the order of the research questions carried which is detailed in the appendix at the end of the thesis. Description and analysis was made from data collected from respondents doing business in the various sectors of the Ghanaian economy, and the information is presented in the form of tables, figures and charts.

The researcher used two processes in collecting data. One method was hand delivered questionnaire to respondents who are operating business in the various sectors of the economy in the Greater Accra region.

In view of the low or no education background of some of the respondents, he researcher read and explained the questionnaire in the local language called Twi to such respondents in order to obtain the necessary information.

The second process was a prearranged face to face and telephone interview held between the researcher and the entrepreneurs. The researcher took the opportunity as part of his holidays in Ghana in September 2011 to collect the data. The researcher used the Statistical Package for the Social Sciences software (SPSS) to analyze the data collected in three different statistical methods, namely reliability analysis, cross tabulation and frequency. According to Electronic Statistical Textbook, 2010, reliability analysis is used to describe the validity of the research test results while frequency is used to review the different categories of values distributed in the research sample. Cross tabulation allows researchers to identify the relationships between research variables.

#### 4.1 Gender

Gender					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	male	25	50,0	50,0	50,0
	female	25	50,0	50,0	100,0
	Total	50	100,0	100,0	

Table 4: Overall number of respondents

As shown in table 4 above, the total number of respondents was 50. Out of this number, 50% were men while 50% were women. Within this sample, those who were between the ages of 16-25 were 7(14%); 26-35 were 15(30%); 36-45 were 13(26%); 46-55 were 11(22%) and above the age of 56 years old were 4 which represent 8%. (See appendix 2 for age grouping)

#### 4.2 Education

Education					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Non formal education	11	22,0	22,0	22,0
	Basic	19	38,0	38,0	60,0
	Secondary	9	18,0	18,0	78,0
	Polytechnic	7	14,0	14,0	92,0
	University	4	8,0	8,0	100,0
	Total	50	100,0	100,0	

Table 5: Educational level of respondents

As it can be observed from table 5 above shows the educational levels of respondents. This indicates 22% of the respondents have no formal education with 38% of respondents having attained basic education. Those with secondary education accounts for 18% whereas polytechnic and uni-



versity education gave 22%. The table clearly indicates that sixty percent of the total respondents have less or no formal education at all.

#### 4.3 Business Category

Business category					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Micro	6	12,0	12,0	12,0
	Small	18	36,0	36,0	48,0
	Medium	19	38,0	38,0	86,0
	Big	7	14,0	14,0	100,0
	Total	50	100,0	100,0	

Table 6: Business category recognized by respondent

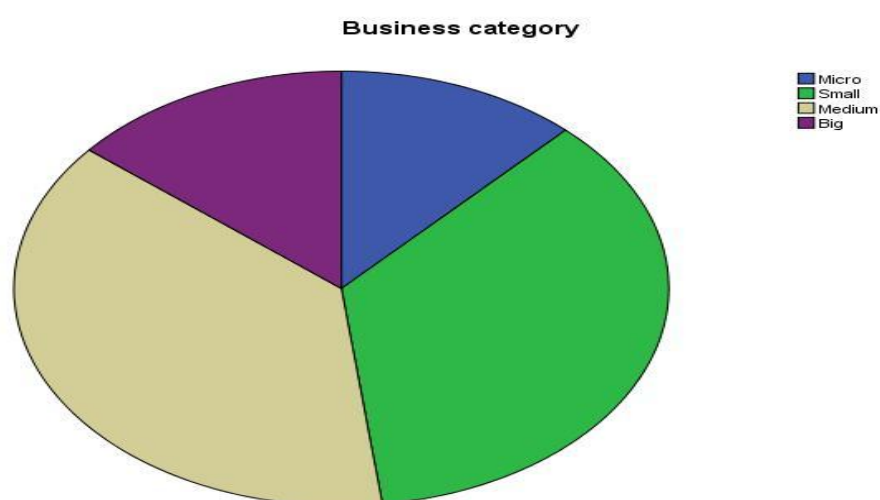


Figure 3: Business category recognized by respondent

Table 6 and the pie chart above figure in 3 represent the business groupings respondents ply their trade. Micro businesses, which in Ghana can be referred to as petty trading, example the street corner shoe maker, the street food seller, the market woman selling few vegetables on a table etc. represents 12%. Small and medium business makes up the bulk of business structures in Ghana. The difference between these businesses is only 2% as a small business represents 36% while medium business account for 38%. The 2% difference reflects that, most of the respondents could easily identify whether their business is neither small nor a medium entity. The remaining 14% were attributed to respondents who considered their business as large companies.

#### 4.4 Industrial Sector

An industrial sector refers to a broad category of similar industries. These groupings are divided into three main areas such as the primary sector which is made of all those industries involved in

extractions or farming. Secondary sector is the second which engages in production or manufacturing goods.

Tertiary sector is the last sector which involves industries that provide services such as retail services and financial services. This sector provides non-physical services or distributes manufactured goods to the customer. Data was collected from all these three areas within the Ghanaian economy as part of the research.

<b>Industrial Sector</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Service	16	32,0	32,0	32,0
	Trading/Buying and selling	19	38,0	38,0	70,0
	Construction	3	6,0	6,0	76,0
	Manufacturing	3	6,0	6,0	82,0
	Mining and quarrying	2	4,0	4,0	86,0
	Agriculture	5	10,0	10,0	96,0
	Other	2	4,0	4,0	100,0
	Total	50	100,0	100,0	

Table 7: Industrial Sector

The utmost striving business engaged in as at 2012 in Ghana is found within the tertiary sector of the economy. For example, there are 26 classes “A” banks according to the bank of Ghana web site on 13 April 2012 while there are over 125 rural banks spread across the country.  
(ARB Apex Bank Ghana 2012)

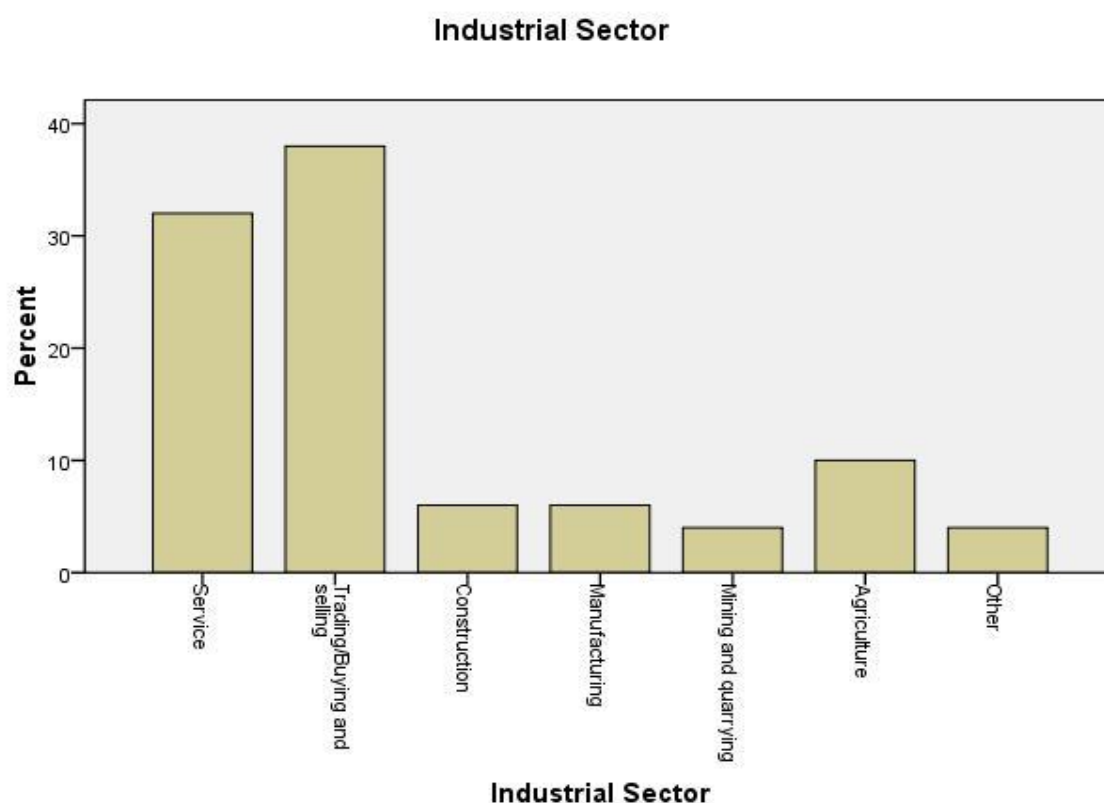


Figure 4: Industrial Sector

Inferred from table 7 and figure 4 above, services and trading (Retail business) combined gave the highest percentage of business activity carried out with 70%. The service industry represents 32% whilst trading which is commonly referred to as buying and selling in Ghana accounted for 38%. This clearly indicates that Agriculture which used to be the major industrial contributor is placed third with 10% of the respondents engaged in agriculture. 12% of the respondents are either doing business in the construction or manufacturing sectors. The discovery oil and its production in recent times have seen an increase of business activities within the sector of mining and quarrying with 4% of the respondents doing businesses in the sector mainly in small pit mining of gold, diamond or salt, stone quarrying or operating a petrol or diesel station. 4% of the total respondents were engaged in other forms of businesses activity.

#### 4.5 Capital

Various authors have defined capital either in an economic or accounting term. According to Certified Public Accountants-USA exam review book volume 2 edition<sup>38</sup>, defined capital as assets including investment and property held for personal use but excludes any property used in trade or business. In the book of Principles of Economics by Joshua Gans et al, also describe capital as economic term which economist refers to as stock of equipment and structures used for production.

For the purpose of this study, capital is the amount of money needed and invested to operate a business on a daily basis. Entrepreneurs used a variety of ways to source capital for establishing a business or invest in an existing business. These sources may include debt financing such as loan, credit financing, leasing, personal savings and plough back profit to name a few.

Capital					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Personal	33	66,0	66,0	66,0
	Family	16	32,0	32,0	98,0
	Friends	1	2,0	2,0	100,0
	Total	50	100,0	100,0	

Table 8: Source of Capital

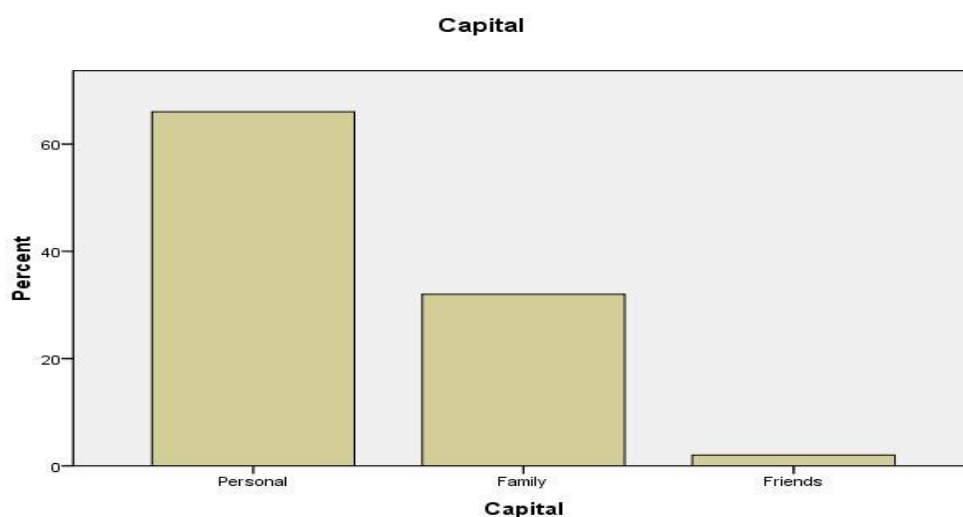


Figure 5: Source of capital

On the basis of determined how respondents funded their business, 66% of respondents fund their business activities by personal savings. They save part of the salaries earned from previous employment over a period of time until they have the required amount to establish the business. 32% sourced their capital funding from family and relatives while 2% received financial funding from friends as shown in table 8 and figure 5. It was evident that none of the respondents received capital for establishing their business from the government, financial institutions or non-governmental organizations. On the other hand, some of the respondents admitted they have taken financial loans from banks and credit institutions to expand their business activities while others claimed they have been approached by officials of some banks and credit unions to take financial loans but they declined such offers due to requirements attached.

#### 4.6 Problems

Problems are the challenges or barriers encountered by the entrepreneurs in establishing and operating their business on the daily basis. The respondents in the research encountered one or more problems based on the options given in the questionnaire while others suggested other forms of problems not stated in the questionnaire. The results obtained are indicated below in table 2 and figure 6 respectively.

Problems		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Lack of Raw Material	5	10,0	10,0	10,0
	Lack of market	9	18,0	18,0	28,0
	Lack of electricity and water supply	11	22,0	22,0	50,0
	Lack of managerial skills	2	4,0	4,0	54,0
	Lack of transportation	2	4,0	4,0	58,0
	Lack of financial support	12	24,0	24,0	82,0
	Any of the above problems combined	4	8,0	8,0	90,0
	Other	5	10,0	10,0	100,0
	Total	50	100,0	100,0	

Table 9: Challenges encountered

As can be observed from table 9 in responds to the question of problems or challenges encountered by the entrepreneurs. Majority of the respondents answered that lack of financial support is the main barrier. Although, there are lot of banks and credit unions within the country, it bureaucratic procedure and high interest rates discouraged them from accessing such loans. Lack of financial support accounts for 24% of the problems confronting entrepreneurs.

Inadequate supply of basic amenities like water and electricity was the second problem faced by the respondents which was 22%. They attributed this problem to the government inability to support the power and water generating companies and also mismanagement, inefficiency and corruption among others on the part of these companies.

In terms of market access for all the economic activities stated in the study, 18% of the entire respondents lack market to sell their products or service. Majority of the respondents attributed this problem to high unemployment and low income earnings which deter customers from buying and patronizing services.

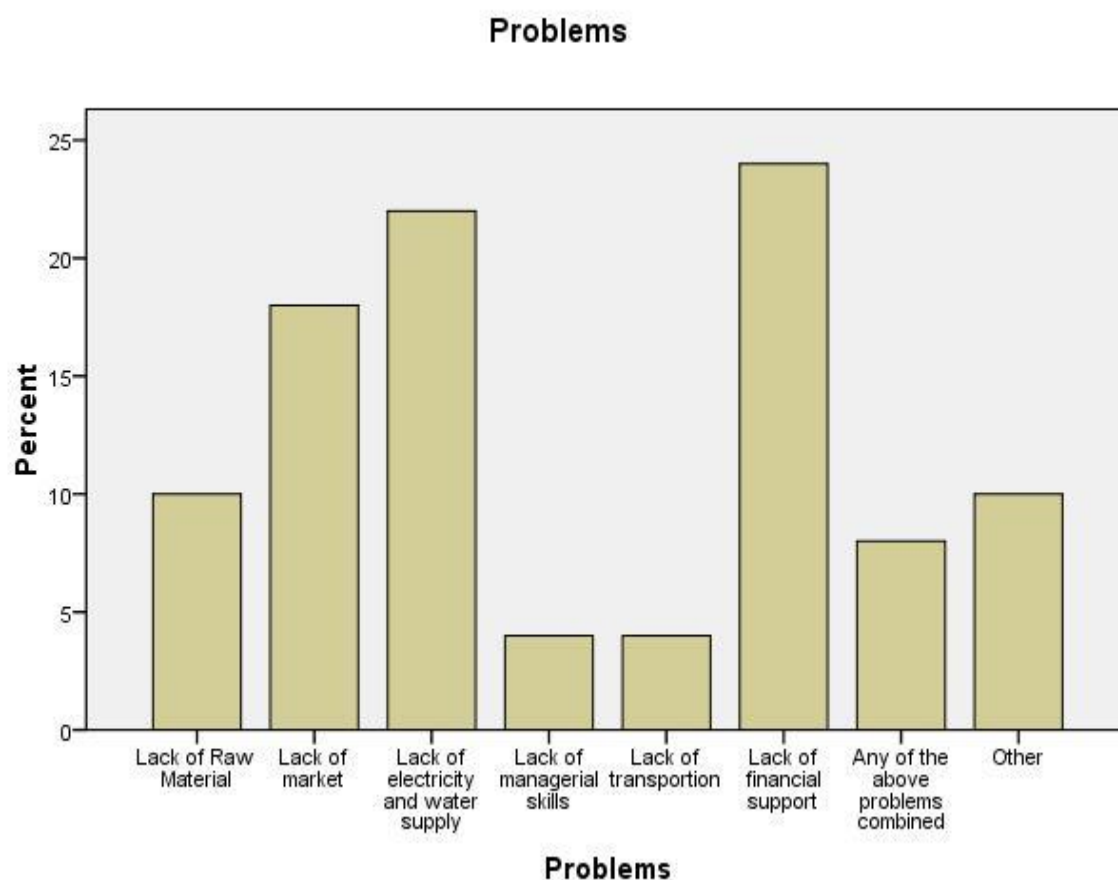


Figure 6: Challenges encountered

Scarcity of raw materials accounts for 10% of the problems. This problem was evident among respondents in the manufacturing, construction and agricultural sectors. Example those manufacturing food products lack the raw materials, whilst construction entrepreneurs and farmers lack the basic materials and farm implements to enhance their operations. 8% of the respondents conceded that they lack managerial skills and access to transportation. In terms of respondents encountering two or more problems from the options stated in the questionnaire, 8% complained of two or more problems simultaneously while 10% mentioned other problems not stated such as high taxes, high exchange rates, rapid falling of the Ghana currency against the major international currencies and the increase of fuel prices.

**Registration**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	20	40,0	40,0	40,0
	No	30	60,0	60,0	100,0
	Total	50	100,0	100,0	

Table 10: Business Registration

Most business operating in the SME sector have failed to register their business with Registrar General's Department or its agencies. Table 10 established that only 40% of the total respondents have registered their business with the appropriate government departments to operate business and are been assessed for tax by the Internal Revenue Service Ghana. The remaining 60% business entities are not registered. According to Mrs. Lydia Amamoo, the assistant tax commissioner of Ghana, the records of the Registrar General's Department Ghana, indicates, there are 266,760 self-employed registered in the informal sector, out of this number only 53,352 have been registered and assessed for tax. This indicate 213,408 business in the informal sector are not registered or assessed for tax and as such evade tax payment which is a revenue loss to the state

#### 4.7 Qualitative Analysis of Interview Results

Three entrepreneurs who have established businesses were interviewed to obtain their views about the SMEs situation in Ghana.

##### 4.7.1 Interviewee One

Kwamens Company limited was established in 1990 as a registered small business has grown to be a medium business. The company was set up by Mr. A. Adofo but is currently managed by her daughter, Gloria Adofo a polytechnic graduate and currently pursuing a course with the Chartered Institute of Purchasing and Supply-United Kingdom is an aspiring entrepreneur. She joined her father's company to learn and gain the entrepreneurial skills and experience after graduating from the polytechnic in HND in "Purchasing and Supply".

Kwamens Company Limited operates as a retail business (buying and selling) in car batteries at a commercial area called Abbosey Okai in the Greater Accra region of Ghana. The company has five employees including the manager. According to Gloria, her father used his personal income, and that from a small kiosk business he was operating before to establish Kwamens limited.

Since the inception of the company, it has not received any government financial support or training programme. Instead, it has received technical training from its external supplies from Italy who comes to Ghana to give them such training.

Among the challenges faced by the company is the high importation taxes and levies charged by the government to clear their imported batteries. The free fall of the local currency against the US dollar which they buy at inflated exchange rates. There is also high market competition since there are more shops today than in the 1990s era and a variety of other brands of car batteries. The company provides livelihood for Mr. Adofo and his family. It also provides employment for others and satisfies the public with quality batteries and technical support for its customers. It also honors the tax obligations to the government.

The business plan to expand and add more products to its trading line in the future to satisfy its customers.

#### 4.7.2 Interviewee Two

Madam Elsie Asare, a trained hair specialist, started her business about 15 years ago in a small kiosk as a hairdresser. Gradually, her business has grown to become a medium business with four departments with each taking care of her customers' needs such as selling hair products, hair plaiting, manicure and pedicure and a storage house.

Afripride, which is the company's name, is a limited liability company located at Madina Market Park in the Accra region. It currently has twenty five employees and ten apprentices who are learning the vocation of hair dressing and plaiting. According to Elsie, she used her personal savings to establish her business and plough back profits to expand its operations and activities as the business grows.

She managed the daily operations of the business with her husband, a university graduate and four of her relatives. As regards the question of receiving financial support from the government or any non-governmental organization, she answered no, but rather has received some managerial training from a government institution.

Among the benefits, she derived from her business are revenue earnings to support herself and family. She uses her business in supporting the female youth in her community, and beyond by providing them with hair dressing training and employment. Finally, she pays her taxes and provides sponsorship for some community activities within her locality.

Afripride hopes to train more girls in the hairdressing profession and also continue to contribute its quota in future empowerment programs for women in her locality. She also hopes to open up branches in other localities in Ghana.

Employee's attitude towards work is her major problem with regards to lateness to work, poor communication with customers and lackadaisical attitude. Lack of financial support and the frequent power outage caused by the electricity supply company. The power failure problem gives her additional cost of buying fuel to power a standby power generator.

#### 4.7.3 Interviewee Three

Ernest Essah is a sole proprietor in agribusiness. He established his farm business in 2009 to cultivate and supply fresh pineapples. Ernest who is a polytechnic graduate decided to go into farming after failing to secure job as a fresh graduate. He said, he saved part of his national service pro-



gram salary to start the business after leasing a land from family head in his locality. Since the business does not require substantial capital to start, it was easy to establish it initially, he said. The business employs six people including him. According to Ernest, he has not received any financial support or training concerning his business from the government or any non-governmental organization.

The problems encountered by business are inadequate labor supply since the job is labor intensive. Since he relies mostly on the seasonal rain fall, the delay or failure of the rains to fall in time affects the pineapple cultivation. The high cost of pesticides to protect the pineapples, lack of storage facilities and lack of accessible roads to the farm yards are the other challenges the business encounter. The final problem he emphasized was the need of capital and basic farm implements to ease the excessive labor applied on the job.

The business is his source of income and livelihood. It has provided him with employment and that of others. Ernest also supply to some beverage manufacturing factories which uses pineapple as raw material. Finally, he pays his taxes as required by law.

Ernest hopes to acquire some of the basic farm implements, when he has saved enough money to buy them. This would help improve the pineapple cultivation and increase yield. He also plans to venture into pineapple juice manufacturing in the future.

#### 4.8 The Ghanaian Situation: Contributions of SMEs to Economic Development

It is evident that micro, small and medium enterprises play a crucial role and are important contributors to the domestic economy of Ghana today. It is a sector which contributes a majority of the economic growth and development in the country. MSMEs are the main source of continued job creation which provides employment for the working populace. The sector provides about 85% employment for people and account for about 70% of the total GDP of Ghana. Micro, small and medium enterprises provides the supply chain link for big and large corporations in terms of distribution and the provision of raw material supplies. This help to create a condition of sustained business operations and growth for both MSMEs and the big corporations.

Despite the fact SMEs sector has a low level of highly educated entrepreneurs and account for less total fraction of business research and development, yet, they have an aptitude for flexibility, creativity and contribute greatly to the innovations systems, which enable them to adopt and respond quickly to demand and structural patterns to meet the needs of customers. The SMEs sector in Ghana has demonstrated by creating a healthy competitive business environment in a sustaining market position, by providing quality goods and services on time at competitive prices to meet the customer`s satisfaction. This has created the foundation to attract the international business

world as a destination to trade, seek business partners and a good location for direct foreign investment.

## 5 Conclusion

The research clearly demonstrate that SMEs are the key and engine of growth for the Ghanaian economy, since it accounts for about 70% of Ghana's GDP and gives about 85% employment of the populace. It has also been observed from the research results that although entrepreneurs, government and other stakeholders are aware of the role micro, small and medium enterprises contribute in the social economic development of the nation, much have not been done to solve the numerous problems besetting them. It was evident from the research that the majority of the entrepreneurs lack higher education (see table 5). Majority of the respondents believed that they were good managers of their businesses, yet they lack the managerial skills such as, basic book and records keeping due to their non or low educational level. In some cases, the daily business activities and transactions are not recorded at all by some of the entrepreneurs.

Secondly, the low rate of highly educated entrepreneurs in the SME sector is present as most graduate from the tertiary education level seek employment in government institutions and well established big companies (salaried jobs) rather than establishing their own business. The low rate of tertiary graduates as entrepreneurs, has resulted in lack of innovative business ideas which can improve ways of doing business in modern times.

The problem of working capital acquisition especially for startup or existing businesses and the lack of government support in providing financial credit, logistics and other incentives are factors which deter most graduate from setting up business and for already established companies to improve, expand or venture into other business areas. This has retarded the progress of SMEs and denied most would be graduate entrepreneurs the opportunities of exhibiting their knowledge and skills. Though there are numerous financial institutions offering loans and credit assistance, the high interest rates and the requirement of collaterals to secure such credits and loans facilities do not encourage entrepreneurs to access them.

Also, it can be concluded from the study that, SMEs lack basic amenities such as frequent water and electricity supply in their business operations. Inadequate water supply and repeated power cuts as a result, have caused damage to some machinery and equipment for some entrepreneurs. This affected their business operations leading to revenue and customer loss. Low patronage of especially made in Ghana goods and the open market system, have encouraged the importation of more cheaper and less quality goods especially from China unto the Ghanaian market. These create more difficulty for local small and medium business to compete and gain market access for their produce. The high unemployment rate means people do not earn any income and as such do not have the purchasing power to patronize a service or buy a product.

The high rate of entrepreneurs failing to register their business entities attributes this to ignorance and evading tax payment. Some entrepreneurs said, they have low sales turn over for their products and services and registering their business will expose them to the scrutiny of their business to Internal Revenue Service with the payment of tax which will lead to the collapse of their business.

## 6 Recommendations and Further Study

The recommendations outlined in this chapter are based on the analysis of data gathered and the theoretical frame work of the study. It is discovered that, the National Board for Small Scale Industries should redefine the definition of small and medium enterprises which should include the micro businesses. The requirement of what constitute micro, small and medium enterprises should be clearly stated. This will enable most entrepreneurs and business operators to know the category under which their business operates in. It was observed that, most entrepreneurs do not know the existence of the NBSSI, authorized by the government to strengthen the developments and growth of SMEs

The management of NBSSI should do more in promoting its activities and creating the awareness in the form of organizing workshops, seminars and establishing strong public image in both the print and electronic media to attract would be entrepreneurs and existing businesses. This would demonstrate that, the NBSSI doors are open to all, and any business minded individual is welcome. The government on its part should furnished all the regional offices of NBSSI with the necessary infrastructure and funds to enable it operates effectively and efficiently in addressing the needs of all micro, small and medium enterprises throughout the country. The Business Advisory Board should be adequately resourced to enable it educate entrepreneurs in areas such as basic book keeping, management skills, recording keeping and computing.

The NBSSI, the government , financial institutions and interested non-governmental organizations should be encourage to fund viable micro , small and medium firms and in return take a percentage of equity in such businesses. The financial institutions should grant loan and credit facilities with less interest rates and, if possible require no asset guarantee provision from clients in other to secure financial assistance.

The government should work out modalities with financial firms and guarantee loans and credit secured by SME businesses. Again, the government together with the Bank of Ghana should do more by putting in measures to stabilize the local currency against the major foreign currencies like the US dollar and the Euro. This will help minimize price fluctuations and hikes of especially imported commodities into the country. A form of tax free holiday should be given to small startup companies for a specified number of years to enable them grow the business and used such incentives to invest back into the business. This will also encourage entrepreneurs to register

their business entities with the Registrar General's Department and the Internal Revenue Service for future tax assessment and for statistical purposes.

The Internal Revenue Service and the Registrar General's Department should work more closely together and come out with improved or new methodologies which will capture all non-registered business entities in the system. They should also improve on their education campaigns to the business fraternity and inform them about the benefits of registering their business and honoring their tax obligations. Emphasis should be placed on the punishment given by the law if they failed to abide the business operating and regulatory laws of Ghana.

Price subsidies for basic farm implements and on certain products or machinery should be given to operators of SMEs. The Deputy Bank of Ghana governor at a workshop organized for SMEs said "The emerging view is that the traditional measures used for promoting SME development such as direct and subsidized provision of credit to SMEs will have to be complemented with emphasis on creating an enabling environment for SME competitiveness and on developing markets for SME-relevant services. Moreover, the focus must be to broaden the coverage and impact of government programs by using the private sector to deliver services and use scarce public resources to facilitate market transactions and invest in public goods". (Myjoyonline news 2011)

The government should consider other means of generating uninterrupted power (electricity) and water supply to this micro, small and medium firms as well as, the country as whole. The reliance of hydroelectric power generating in the country is no more sustainable since it depends on rainfall pattern and other environmental factors. Alternatively, renewable electric power generating like wind and solar power should be considered. Nuclear energy is another option but requires a lot of safety standards, international regulatory laws and its capital intensive to establish and operate.

The collapsed railway network and functioning should be revamped to ease part of the transportation problem. The government should be partnering with interested organizations or secure foreign aid to restore the railway operations. This will facilitate the transportation of goods and supplies of agricultural raw materials from the hinter lands to the main cities more quickly. The railway system will ease the traffic burden and road congestions. Transporting heavy merchandized products by road which often caused road accidents, resulting to loss of lives and property could be minimized by revamping the activities of the train services. In doing so, jobs would be created which would also lead to new business ventures. Good and well-connected roads should be constructed to facilitate movement of people, goods and services. Bad roads should be repaired and maintained regularly.

Entrepreneurs who have no formal education should be encouraged to attend adult education programs to enable them read and write. This will improve their daily business transaction with cus-

tomers and other book keeping activities. Entrepreneurs should also hire competent professionals to work with and manage their business activities. Those who have some form of formal education should also upgrade and attend refresher courses to be abreast with the current business dispositions.

Finally, the government should learn from a developed country that are successful in promoting, sustaining and developing their SMEs and use it as a benchmark or learn from such a model to develop the SMEs in Ghana. A thorough review should be made by the NBSSI, Ghana government and all SME stakeholders from the research conducted by the South Korean Institute of Economics about the SMEs in Ghana as compared to that of South Korea to learn and adopt some of the strategies which are beneficial to develop the SMEs sector in Ghana.

A further research should be pursued to ascertain how micro, small and medium enterprises in Ghana can be sustained, promoted, developed and market their products and services beyond the boundaries of Ghana.

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## Figures

Figure 1: Structure of study.....	8
Figure 2: Source, Building the Foundation for the Development of SMEs in Ghana, KDI, .....	27
Figure 3 Business category recognized by respondent .....	31
Figure 4: Industrial Sector.....	33
Figure 5: Source of capital .....	34
Figure 6: Challenges encountered .....	36

## Tables

Table 1: Culled from the Bolton Committee 1971, UK .....	15
Table 2: Culled from EU Commission Staff Report, 6 <sup>th</sup> May 2003 .....	16
Table 3: NGO's and Activities .....	24
Table 4 Overall number of respondents .....	30
Table 5: Educational level of respondents .....	30
Table 6 Business category recognized by respondent .....	31
Table 7.....	32
Table 8: Source of Capital.....	34
Table 9: Challenges encountered .....	35
Table 10: Business Registration .....	36

## Appendices

### Appendix 1: Questionnaire

#### 1. Background Information

Gender: Male ☐

Female ☐

Age: ☐ 16-25

☐ 26-35

☐ 36-45

☐ 46-55

☐ 56 and above

#### 2. Educational Background

☐ Basic Education

☐ Secondary/Technical Education

Tertiary Education:

☐ Polytechnic

☐ University

☐ Non Formal Education

#### 3. Under what category is your business identify?

☐ Micro Business

☐ Small Business

☐ Medium Business

☐ Big Business

☐ No idea

#### 4. What kind of industrial sector is your business involved in?

☐ Providing Service

☐ Manufacturing

☐ Trading (Buying & Selling)

☐ Mining & Quarrying

☐ Construction

☐ Agriculture

☐ Other

#### 5. What were your sources of capital when you established this business?

☐ Personal Savings/Resources

☐ Loan from family and relatives

☐ Loan from Friends

☐ Loan from Bank/ Credit Union

#### 6. What are the problems facing your business

☐ Lack of raw materials

☐ Transportation

☐ Lack of market

☐ Lack of financial support

☐ Lack of electricity & water

☐ Any of the above combined

☐ Managerial skills

☐ Basic working tools

☐ Other

#### 7. What are the importance of the business to you, your locality and Ghana as a whole?

.....

.....

8. Is the business registered with registrar general`s department? YES ☐ NO ☐

Appendix 2: Age of Respondents

		<b>Age</b>			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	16 -25	7	14,0	14,0	14,0
	26-35	15	30,0	30,0	44,0
	36-45	13	26,0	26,0	70,0
	46-55	11	22,0	22,0	92,0
	above 56	4	8,0	8,0	100,0
Total		50	100,0	100,0	